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5 Public Expenditure on Social Security

Jonathan Bradshaw

Introduction

Social security is by far the largest public expenditure programme and now accounts for a quarter of all public expenditure. Unlike most of the other expenditure programmes, social security has up to now been protected from intentional cuts: there has been controversy about whether benefits have been increased sufficiently to maintain their value but no government since the war has explicitly admitted that it intended to cut benefits to reduce expenditure on social security. The Conservative government elected in 1979 changed all this. They plan to reduce public expenditure in volume terms over the four years 1980/1–1983/4 and social security has not escaped the axe. The proposals for cuts are discussed later in this chapter but first, in order to indicate why public expenditure on social security has managed to avoid earlier cuts by successive governments and why the present government's plans are so significant, it would be useful to outline the special nature of social security expenditure.

The Nature of Social Security Expenditure

Growth factors

Social security expenditure is the largest of the public expenditure programmes and it has grown in money terms, in real terms (by £7000 million in the last ten years), as a proportion of all public expenditure and as a proportion of GDP. Table 5.1 shows how public expenditure has increased during the latter part of the 1970s.

Not all of this increase, or even the bulk of it, has occurred as a result of real improvements in the level or coverage of social security benefits. Of course, most of the increase in money terms on social security has come from efforts to maintain the value of existing benefits in line with increases in prices or earnings: the

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Table 5.1 *Social security expenditure 1974/75–1980/81*

	1974/5	1975/6	1976/7	1977/8	1978/9	1979/80	1980/1
At 1979 survey prices (£ million)	14 172	15 378	15 838	16 655	18 266	18 890	19 354
As a percentage of total public expenditure	19.8	21.1	22.4	24.5	25.3	25.2	26.0
As a percentage of GDP	9.2	9.8	10.1	10.0	10.8	10.6	—

Source: Calculations based on Treasury, *The government's expenditure plans 1980/81 to 1983/4*, Cmnd 7841, London, HMSO, 1980, Tables 1.2 and 1.6.

November 1980 uprating in benefits alone cost an extra £3000 million. Whether governments have succeeded in maintaining the value of benefits will be considered further below.

The next most important determinant of the level of public expenditure on social security is the number of people qualifying for benefits and as the number of social security beneficiaries increases so does the level of social security expenditure. The most important cause of this increase in the last ten years has been the rising number of retired elderly in the population and the resulting increased expenditure on retirement pensions: there were 6.5 million retirement pensions in payment in 1966 and 8.8 million in 1979 (DHSS 1980b: Table 13.30). There have over the period been steady increases in other groups dependent on social security: while the number of widows has declined, rising rates of divorce and separation have increased the number of one-parent families in receipt of supplementary benefit, family income supplement (FIS) and child benefit increase (now one-parent benefit). The number of single parents on supplementary benefits has increased by one-third during the 1970s and the number of divorced women on supplementary benefit has more than trebled in ten years (DHSS 1980b: Table 34.32). The most dramatic increases in social security expenditure are now coming as a result of increases in the number of the unemployed, an increase of 100,000 in the numbers of the unemployed is estimated to cost about £110 million per annum in benefits alone (Treasury 1980a: 114).

Not all the demographic changes that have occurred over the last ten years have led to increases in expenditure. The numbers of widows and war pensioners have declined and the number of child benefit payments has declined since 1978 as a result of the fall in the birth-rate in the mid-1960s. In general though demographic

changes have increased dependency in the population. The rising numbers of elderly in particular have led and will continue to lead to increases in social expenditure unless there are cuts in benefit levels.

Table 5.2 Expenditure on broad groups of beneficiaries as a percentage of total social security expenditure (at 1978 survey prices)

Year	Elderly	Disabled and long-term sick	Short-term sick	Unemployed	Widows and orphans	Family
1973/74	56.5	10.3	6.3	6.0	6.1	10.1
1978/79	54.0	11.4	4.6	8.6	4.6	12.8
1982/83 ^a	54.9	12.5	4.3	7.7	4.2	12.6

Note: ^a planned.

Source: Calculations based on Treasury, *The government's expenditure plans 1979/80 to 1982/83*, Cmnd 7439, London, HMSO, 1979, p.153.

The 1978 white paper for the first time gave details of expenditure allocated to the main groups of beneficiaries. Table 5.2 summarises this for three years and shows that the elderly take over half the social security budget. Based as it is on predictions carried out in 1978 the table underestimates the share of the budget that will be spent on the unemployed by 1982/3.

Another semi-automatic reason for social security expenditure to increase is as a result of increases in the take-up of benefits. For example, the number of claimants for family income supplement increased from 65,000 in 1971/2 to 95,000 in 1973/4, partly as a result of the improvement (which may not have been maintained in more recent years) in the rate of take-up. It is also thought that efforts to make supplementary benefits more accessible together with a greater willingness to claim have led to an increase in the take-up. There has certainly been an increase in the proportion of supplementary benefit recipients receiving discretionary additions. The number of exceptional circumstances additions in payment increased from 753,000 in 1973 to 1,740,000 in 1979 (DHSS 1980b: Table 34.42). These improvements in take-up which increase expenditure are not restricted only to means tested benefits. New benefits have a 'take-on' period, for example, the number of recipients of the attendance allowance steadily increased from the time it was introduced up to 1978 and part of this increase must have occurred as a result of increasing knowledge of the existence of the benefit.

Finally increases in expenditure come as a result of extending existing benefits or introducing new ones. During the 1970s a number of new benefits were introduced. The FIS in 1971 and child benefit increase (formerly child interim benefit, now one-parent benefit) for single parents in 1976 were two new benefits for families with children. By 1980/1 FIS was costing £32 million per year. The principal group to receive new benefits during the 1970s were the disabled. The attendance allowance, initially payable at one rate from 1971, and extended to the less severely disabled at another rate in 1975, was costing about £200 million by 1980/1. The mobility allowance was phased in from 1976 and by 1980/1 was costing £103 million per year. Other new benefits for the disabled – the invalidity pension for the chronic sick from 1971, the non-contributory invalidity pension (NCIP) from 1975 and invalid care allowance from 1976 – resulted in much smaller increases in expenditure because they were paid at lower rates than other insurance benefits and were fully taken into account in assessing supplementary benefits (the majority of new recipients were already receiving supplementary benefits). It was estimated in 1974 that NCIP and ICA would cost £62 million gross, but after savings on supplementary benefits would cost less than £9 million (Treasury 1975). In November 1977 the payment of NCIP was extended to include married women of working age who were incapable of normal household duties and this was expected to cost £8 million in 1977/8 (Treasury 1978).

Undoubtedly the biggest improvement in social security benefits introduced in the last ten years has been the new pensions scheme. As full entitlement to this will build up over twenty years from April 1978 the expenditure effects are only beginning to be felt. Pensioners benefited from 1970 by the introduction of the old persons' pension for very old pensioners who were not eligible for the national insurance pension. By 1980/1 the gross cost of this pension had fallen to £33 million, the net cost of it would be very small as most of the beneficiaries would be eligible for supplementary benefits. New benefits were also introduced for pensioners from 1972 when the first lump sum or Christmas bonus was paid. This cost over £100 million in 1978 and is now paid annually under the Pensioners' Payment Act 1979. Additional expenditure under the social security programme has also come as the result of increases in fuel prices. This problem was first dealt with by price subsidies but from 1977 began to be covered by additional help for poor consumers by means of an electricity discount scheme. From 1980 the Conservative government replaced this by an additional fuel allowance for certain recipients of supplementary benefits and

the family income supplement payments were correspondingly increased and this was expected to cost £100 million in 1980/1.

Apart from these new benefits, increases in expenditure have come from modifications to existing benefits, such as alterations to the earnings rules on national insurance benefit, increases in the earnings and capital disregards on supplementary benefits, and a reduction in the qualifying hours for full-time work for single parents on FIS. One very important change in existing benefits occurred in 1977/8 when child tax allowances and family allowances were replaced by child benefits. The aggregate net value of child tax allowances became part of public expenditure, family allowances which had been costing £733 millions in 1976/7, as child benefits were shown to be costing £2820 million by 1979/80 but only £347 million of this increase was a real increase in expenditure, the rest of the 'increase' was a transfer in accounting from tax revenue forgone to public expenditure (all these figures at 1979 survey prices). The relationship between tax allowances and social security benefits will be discussed further below.

It is very difficult to calculate what proportions of increases in public expenditure are attributable to each of the factors discussed. It is possible to assess the extent to which individual benefits have maintained their value and this is done below, but it is difficult to assess exactly what proportion of the increase is due to improvements in take-up, what proportion to demographic changes and what proportion to new or enhanced benefits.

Financing of social security expenditure

Social security expenditure differs from other social expenditure in the degree to which it is self-financed by contributions. Over half of expenditure on social security is in contributory benefits which are financed by contributions from employer, employees and the state. As well as being a source of revenue to pay benefits, these contributions are a condition of entitlement. They have up to now been considered by the trade unions as a guarantee of entitlement, a way of ensuring that governments, eager to cut expenditure, do not make use of resources allocated to benefits to which rights have been accrued. The strength of this argument is somewhat weakened by the present government's proposals for cuts discussed below. The distinction between benefits paid from tax revenue and benefits paid from the national insurance fund is really somewhat theoretical. Employee national insurance contributions, being earnings related, are no more than a rather regressive addition to income tax; the contributions paid in are calculated on a pay-as-you-go basis. The surplus which the national insurance

fund has earned every year during the 1970s (except 1972) is employed as part of general revenue and the accumulated surplus is not treated as a resource for financing further benefits. Table 5.3 shows how national insurance contributions have moved as a proportion of average earnings over the 1970s.

Table 5.3 National insurance contributions as a percentage of average earnings (male manual) for selected years

<i>Year</i>	<i>Not contracted out</i>	<i>Contracted out</i>
November 1969	6.2	5.2
September 1971	6.0	5.2
October 1973	5.9	5.3
August 1974	6.1	5.5
April 1975	5.5	5.5
April 1978	6.5	4.6
April 1979	6.5	4.6
April 1980	6.8	3.2

Source: *Social Security Statistics*, 1980, London, HMSO.

Transfer payments

Public expenditure on social security is a transfer payment rather than an expenditure on goods and services (see Chapter 1). The benefits are derived from contributions and tax revenues which are taken out of private expenditure but then transferred back to private expenditure in the form of benefits. Social security (except administrative costs) cannot, like other public expenditure, be described as a burden on the private sector. It is in fact consumer expenditure redistributed from one consumer to another. Though it is not a withdrawal from consumer expenditure, it may entail a withdrawal from private investment to the extent that beneficiaries have a higher propensity to consume than contributors. Transfers act as a built-in stabiliser to the economy giving extra purchasing power and reducing insecurity during periods of depression. Thus public expenditure on social security may have a marginal effect on private investment but helps to maintain private consumption. It is not a transfer of resources from the private to the public sector.

The final special characteristic of social security expenditure is that it is entirely central government expenditure in contrast to expenditure by nationalised industries or local authorities. It cannot therefore be controlled by such devices as external financing

limits and financial targets used in the nationalised industries, or cash limits or the rate support grant used to control local authorities' expenditure. In social security expenditure only expenditure on administration and miscellaneous services can be subject to cash limits.

These characteristics of social security expenditure – that it is demand determined, that it rises inevitably with increasing dependency, that benefits are determined by statute and may be underwritten by a contribution condition, that the benefits are transfer payments rather than expenditure on goods and services and that central government has (ironically) less control over its own expenditure – have meant that over the last decade, while there has been little real improvement (see below), social security benefits have not been cut and social security expenditure has increased.

The Level of Social Security Benefits

Perhaps the best way to evaluate past trends in public expenditure on social security, given that it is so difficult to disentangle the effects of automatic and semi-automatic increases in expenditure from real improvements, is to assess what has happened to the actual level of benefits. This makes it possible to assess whether there have been any real improvements in existing benefits (though not how much of increased expenditure is because of new benefits). There are a variety of ways in which the value of benefits can be compared over time, compared with a price index to assess their purchasing power, and against an earnings index and the net incomes of those in work to assess relative living standards.

As far as possible the points chosen for comparison in the following tables coincide with the beginning and end of each government's period in office, so for example November 1969 is the last up-rating of the 1964–70 Labour government, September 1971 and October 1973 the first and last up-ratings of the 1970–4 Conservative government, July 1974 and November 1978 the first and last up-ratings of the Labour government and November 1979 and November 1980 (where figures permit) the first up-rating of the present Conservative government. Comparable figures are also presented for July 1948 when the social security scheme began and April 1961 to indicate the level of benefits in the 1960s.

Tables 5.4–5.6 give a flavour of how the value of some of the most important social security benefits has moved over the last decade. The value of the pension has more than doubled since its introduction and continued to move ahead of prices in the first half of the 1970s with a big jump in 1974 when the Labour government implemented an election promise of a £10 pension. The up-rating

Table 5.4 *Retirement pension for a man or woman on own insurance*

<i>Year</i>	<i>Equivalent value at April 1980 prices (£)</i>	<i>Per cent of average male manual earnings</i>	<i>Per cent of average net income of all males</i>
July 1948	10.85	19.1	—
April 1961	14.92	19.1	—
November 1969	18.74	20.0	April 1970 23.7
September 1971	19.30	19.5	April 1971 21.1
October 1973	20.91	18.9	April 1974 23.3
July 1974	23.77	21.6	April 1975 28.5
November 1978	25.11	23.4	April 1978 28.5
November 1979	25.56	23.6	April 1979 28.3
November 1980	25.57	—	April 1980 27.3

Source: DHSS, *Social Security Statistics*, 1980, London, HMSO, Tables 46.09 and 46.15.

in November 1980 appears to be the first time that the pension has not gained in real value since World War II. In comparison with gross and net earnings, the pension has not improved so much; in the 1970s particularly there was a decline in its relationship with gross earnings during the 1970–4 Conservative government's period in office and an increase in the 1974–9 Labour government's period in office which was sustained in November 1979. However it seems from the April 1980 figures that the November 1980 up-rating will not have maintained the level of the pension in line with manual earnings.

The pattern for unemployment benefit depends on whether earnings-related supplement is included. Earnings-related supplement (ERS) was added to unemployment benefits from 1966 and is payable after the first two weeks of unemployment for six months. Only about one in six of the unemployed are receiving ERS at any one time. For the unemployed who are relying only on the standard benefit for their income the scales have almost doubled since 1948 but during the 1970s there was little improvement in benefit levels. With ERS the value of the benefit has trebled but there has been no improvement during the 1970s. Compared with gross earnings there has been no improvement at all over the whole period in the level of the standard rates. The introduction of ERS improved the value of the benefit in the 1960s, but this was not sustained into the 1970s. The value of the benefit compared with net income has also declined during the 1970s.

Family support – family allowances, child tax allowances and

Table 5.5 Unemployment or sickness benefit for a man or single woman

Year	Equivalent value at April 1980 prices (£)		Per cent of average male manual earnings		Standard rates of UB/SB ^b and FA/CB ^c as per cent of net average income. Couple + 1 child, male manual worker
	UB	UB+ERS ^a	UB	UB+ERS	
July 1948	10.85	10.85	19.1	19.1	Oct 1948 37.8
April 1961	14.92	14.92	19.1	19.1	Oct 1961 40.7
November 1969	18.74	37.36	20.0	39.9	Oct 1969 43.4
September 1971	19.30	40.92	19.5	41.4	Oct 1971 47.4
October 1973	19.83	38.72	18.0	35.1	Oct 1973 44.6
July 1974	20.45	38.87	18.6	35.4	Oct 1974 45.3
November 1978	20.28	35.24	18.9	32.8	Oct 1978 44.0
November 1979	20.30	33.32	18.8	30.8	Oct 1979 39.5
November 1980	19.45	31.40	—	—	Oct 1979 —

Notes: ^a UB+ERS = Unemployment benefit and earnings related supplement.

^b UB/SB = Unemployment/Sickness benefit.

^c FA/CB = Family allowance/child benefit

Sources: DHSS, *Social Security Statistics*, 1980, London, HMSO, Table 46.06;
DHSS, *Abstract of statistics for index of retail prices, average earnings, social security benefits and contributions*, Branch HQ SR8a, Table 6.1a.

Table 5.6 Family support for a three-child family (children aged 11 or under)

Year	Equivalent value at November 1980 prices (£)	Per cent of average male manual earnings
August 1946	15.12	26.8
April 1960	16.01	20.3
April 1970	12.70	12.7
April 1973	12.19	10.7
April 1974	13.39	11.8
April 1978	12.39	11.1
April 1979	15.36	13.4
November 1980	14.25	—

Note: Family support here includes family allowances (child benefit in later years) and the value of child tax allowances for those paying income tax at the standard rate.

Sources: House of Commons, *Hansard*, 1981, Vol. 996, cols. 481-2;
DHSS, *Social Security Statistics*, 1980, London, HMSO, Table 46.11.

child benefits – in the 1970s was mostly below the equivalent of its value when family allowances were introduced in 1946. Its value in comparison with earnings fell during the 1970s except when child benefits were increased to £4 per child per week in April 1979. The value of family support in November 1980 compared with both prices and earnings was probably lower than when family allowances were first introduced in 1946.

These comparisons hide a number of changes that have occurred in the relative value of benefits. Table 5.7 shows that the relative values of unemployment and other short-term insurance benefits have deteriorated during the 1970s, and it also shows the growing gap between ordinary and long-term scales of supplementary benefits. It indicates that the improvements that have been made in benefits have been concentrated on pensioners and the long-term sick or disabled and not on the unemployed.

Table 5.7 *Relativities between benefits (unemployment benefit = 100)*

Year	Unemployment benefit	Retirement pension	SB ordinary rates	SB long-term rates
July 1948	100	100	92.3	—
April 1961	100	100	93.0	—
November 1969	100	100	96.0	106.0
September 1971	100	100	96.7	105.0
October 1973	100	105.4	97.3	110.9
July 1974	100	116.3	97.7	120.9
November 1978	100	123.8	98.7	126.3
November 1979	100	125.9	98.9	128.1
November 1980	100	131.5	103.1	131.5

Source: DHSS, *Social Security Statistics*, London, HMSO, 1980, Table 46.05.

It is clear from the data presented in this section that despite a massive increase in social security expenditure during the 1970s it is not true that all benefits have improved in value either relative to earnings or prices. During the 1970s a pattern of annual up-ratings became established. It was first put into a statutory form in the Social Security Act 1973 when the Conservative government committed itself to reviewing benefits in line with price increases. In 1975 when there were two increases, an amendment to the Social Security Act committed the Labour government to up-rating long-term benefits in line with prices or earnings whichever was greater and short-term benefits in line with price increases. In its 1979 Budget the new Conservative government announced that they would amend the minimum statutory requirement to up-rate

long-term benefits to compensate for movements in prices only. Subsequently they announced and enacted that short-term insurance benefits would be increased by 5 per cent less than the rate of inflation in 1980.

Table 5.8 shows the increases in retirement pension and unemployment benefit from year to year compared with movements in earnings and prices. When fixing the levels of benefit, governments have to predict how earnings and prices will move six months in advance, and on the whole in the 1970s they were not very good at getting it right. Only in 1979 were pensions increased within one percentage point of the correct figure and only in 1973, 1978 and 1979 were short-term benefits increased within one percentage point of the correct figure. In 1971, 1972, April 1975, 1978 and 1980 pensions were increased by less than the increase in earnings and in 1973, April 1975, 1978 and 1980 unemployment and sickness benefits were increased by less than increases in prices.

Cuts in social security expenditure

The Conservative government's cuts in social security expenditure are discussed in the following section partly because they are unprecedented, partly because they demonstrate the consequences of reducing social security expenditure and partly because they reveal the lack of coherent policy making in this programme which has been a feature of the 1970s.

The proposals for cuts in social security expenditure were incorporated in the 1980 White Paper (Treasury 1980a: 3).

The Government intend to reduce public expenditure progressively in volume terms over the next four years . . . to bring down the rate of inflation and interest rates by curtailing the growth of the money supply and controlling Government borrowing; to restore incentives; and to plan for spending which is compatible both with the objectives for taxation and borrowing and with a realistic assessment of the prospects for economic growth.

The main contribution that social security would make to this goal was, first, the minimum uprating of long-term benefits would be based on price movements only rather than on the greater of earnings or prices. Secondly, the ERS would be abolished from 1 January 1982. Thirdly, the indexed increase in short-term national insurance benefits and long-term invalidity benefit in November 1980 would be 5 per cent less than it should have been. Fourthly, the payment of short-term sickness benefit would become the responsibility of employers.

Other minor changes were also made: a change in the entitle-

Table 5.8 *Increases in benefits, prices and earnings*

Year	Retirement pensions Per cent increase over previous rate	Per cent increase in average earnings	Unemployment benefit per cent increase over previous rate	Per cent increase in prices
September 1971	20.0	23.3	20.0	16.5
October 1972	12.5	15.8	12.5	8.5
October 1973	14.8	12.6	8.9	9.9
July 1974	29.0	14.7	17.0	13.5
April 1975	16.0	19.4	14.0	17.7
November 1975	14.7	11.5	13.3	11.7
November 1976	15.0	13.1	16.2	15.0
November 1977	14.4	10.4	14.0	13.0
November 1978	11.4	14.4	7.1	8.1
November 1979	19.5	18.5	17.5	17.4
November 1980	16.5	—	11.6	—
Per cent increase November 1969 – November 1979	466	416		342

Sources: DHSS, *Social Security Statistics*, 1980, London, HMSO, Tables 46.06 and 46.09;
DHSS, *Abstract of statistics for index of retail prices, average earnings, social security benefits and contributions*, 1980.

ment formula for earnings related supplement for short-term benefits, a reduction in the interval between successive periods of interruption of employment which are to count as a single period in determining entitlement to benefits, no entitlement to sickness benefit for periods less than four days and the withdrawal of entitlement to unemployment benefit from claimants with substantial occupational pensions and reductions in striker's supplementary benefit. Some one thousand additional staff would be engaged to detect fraud. Overall savings claimed would be about £300 million in 1981/2 and £130 million from the cessation of ERS in 1982/3.

The up-rating of short-term insurance benefits by 5 per cent less than inflation would have represented a real cut of about £1.50 per week (in fact the full effect of this cut was not felt because the government over-estimated the rate of inflation in 1980 but abated the benefit increase in 1981 by 1 per cent to compensate for it). The abatement was justified by the government on the grounds that short-term insurance benefits should be taxed and since because of

practical difficulties this could not be introduced until 1982, the abatement was an interim measure.

The savings in expenditure are not more dramatic than they are because part of the savings in ERS and the lower up-ratings of benefits have to be offset against increases in claims for supplementary benefit. The government predicted that the non-pensioners on supplementary benefit would increase by over 500,000 between 1979/80 and 1983/4 partly as a result of these measures. This is a transfer from contribution-financed benefits to tax-financed benefits and shifts from a reliance on an administratively efficient contributory benefit to a relatively more costly means tested benefit.

The rationale behind the government's expenditure plans was heavily criticised in a report of the Social Services Committee (1980) who did not think that the expenditure projections and assumptions 'are realistically and soundly based'. In particular the Committee thought that the estimates of unemployment were over-optimistic and if unemployment reached 2½ million by 1982/3, which 'independent economic analysts' had expected rather than the 1.8 million assumed in the white paper, this would add about £750 million to the plans. This sum would have to come either from the £1500 million in the contingency reserve or from an increase in national insurance contributions. This would not be the only call on the contingency reserve. Because child benefits do not have statutory protection against inflation, increases to protect their value are never built in to the white paper projections. Thus any increase in the money value of child benefits would also have to come from the contingency reserve. For child benefits to maintain their November 1980 value of £4.75 in 1982/3 would require an addition of £350 million. Thus the DHSS would require about three-quarters of the contingency reserve despite the fact that the white paper states 'the Government will aim to avoid or minimise any additional expenditure from the reserve and to keep as much as possible of the reserve unspent' (Treasury 1980a: 8).

The Select Committee criticised the government proposals for their inconsistencies. In order to 'save public money' the ERS was being abolished despite the fact that with lower national insurance contributions and increased payments in supplementary benefits and higher administrative costs, expenditure of tax revenue would actually increase. The cuts also would lead to increased administrative costs. The administrative costs of national insurance benefit are about 4½ per cent and of supplementary benefit about 17 per cent. It was expected that increasing unemployment would lead to a 3 per cent increase in administrative costs, and a further 1 per

cent, due to about 1000 extra staff, would arise from the abatement in the increase in short-term benefits in 1980 and the abolition of ERS in 1982.

This Committee believes that whatever the sum available for social security spending, as much as possible of it should go to beneficiaries: we therefore view with particular concern any policy changes which at the same time reduce what beneficiaries receive while increasing the numbers administering the transfer. Furthermore, it seems unfortunate to absorb more real resources (i.e. public sector manpower) at the expense of transfer incomes (which simply shuffle around money but do not use up resources. . . .). (Social Services Committee 1980: xvii)

Strategic policy-making

These criticisms from the Select Committee concern the specific proposals of the present government, but they also charge that there is an absence of strategic policy-making in government and this criticism could have been applied to all governments during the 1970s. The Select Committee (Social Services Committee 1980: xix) picked on the need for government 'to develop a coherent strategy concerning the overall impact of government policy decisions – whether on taxes, benefits, subsidies or charges – on the relative living standards of different groups of beneficiaries and earners'. But there are also other important defects in the planning of social security expenditure.

In general whatever the colour of the government in power during the 1970s the planning of social security expenditure has lacked coherence. No doubt the poor performance of the British economy with successive governments responding desperately to a current economic crisis has not been the best environment in which to concentrate on strategic planning. Most of the reform that has taken place in the social security system has therefore been incremental and on a small scale. Only one major reform has reached the statute book, the Social Security Act 1975, which implemented the proposals outlined in the white paper 'Better Pensions' (DHSS 1974). Full pensions under this scheme will not be paid until 1998 and meanwhile over two million pensioners are dependent for part of their income on supplementary benefits and an estimated 600,000 are eligible for benefit but not claiming what they are entitled to.

All the other proposals for major reform to social security schemes in the 1970s foundered. The tax-credit proposals (Treasury 1972b) fell with the Conservative government in 1974 but have subsequently not been implemented by the new Conservative government, largely because of their cost implications and the intro-

duction of child benefit. In 1971 the Finer Committee (1974) found widespread hardship among single-parent families, half of whom were dependent on supplementary benefits. Finer concluded that there should be a new system of income support for single parents and recommended a non-contributory guaranteed maintenance allowance (GMA). The Labour government rejected the GMA proposal on the grounds that it was means tested and the non-contributory allowance that pressure groups have called for has not been implemented on the grounds of cost. Instead single parents have benefited from modest reforms such as the family income supplement scheme, changes to the supplementary benefit scheme and child benefit, including the child benefit addition.

The field of disability benefits presents perhaps the best example of incremental and piecemeal reform in operation during the 1970s. The attendance allowance, non-contributory invalidity pension, the mobility allowance and invalid care allowance were all introduced in the 1970s. This patchwork of overlapping and discontinuous benefits falls short of a comprehensive and coherent response to the income needs and extra expenses associated with disability. It is arguable that the creation of this hotchpotch of benefits has made it very difficult ever to provide for all the disabled the kind of national disability benefit that has been called for (Disability Alliance 1975).

National insurance provision for the unemployed has all but collapsed. The insurance system really only provides any cover at all for the short-term unemployed with a good contribution record. However, in circumstances of increasing long-term unemployment with many without an employment record or only intermittent periods of low earnings in unskilled jobs, fewer and fewer of the unemployed have benefited from the insurance system. Nearly half the unemployed now receive supplementary benefit, fewer than one in six are in receipt of ERS, less than 40 per cent receive unemployment benefit and nearly a quarter of the unemployed do not appear to be receiving any benefit at all.

The result of this failure to plug the gaps in Beveridge's national insurance scheme and bring it up to date to meet the needs of the 1970s has been that there have continued to be very large numbers dependent for whole or part of their income on supplementary benefits, in fact nearly 9 per cent of the UK population including half of all single parents, half of the unemployed and a third of pensioners. This problem of large numbers of claimants utilising a means-tested individualised service has produced serious problems in the administration of supplementary benefits. In an effort to resolve these the government established a review of the sup-

plementary benefits scheme in 1976 (DHSS 1978). Although the review itself was a remarkable example of sustained, coherent and integrated analysis of an extremely complex subject, carried out in a very open way, because it was a no-cost review and had to ignore the rest of the social security system, what emerged from the review will do little to relieve the difficulties of administering means-testing on a mass scale.

Perhaps one of the most hopeful reforms in the 1970s and one that was unique in integrating the benefit system with the tax system was the child benefit scheme. It was only implemented after a bitter struggle within the Labour cabinet between Treasury and Social Services ministers. Unlike other benefits it was never indexed, and the level of family support has not been maintained in the face of inflation.

Apart from national economic preoccupations which have dominated consideration of all social policies and been reflected in the unwillingness of successive governments to raise the revenue for increases in expenditure by increases in taxation, there have been difficulties within Whitehall in getting the kind of integrated decision-making that would enable cohesive policy-making. Despite the establishment of the Central Policy Review Staff and the publication of its plea for a joint approach to social policy (CPRS 1975), there is really little evidence that this approach has operated in the field of social security policy. Perhaps the most dramatic evidence of this is in the lack of coherent planning in the setting of tax and benefit levels and in evaluating how they operate together on incomes.

The lack of integration in tax and benefit policy results in there being a range of earnings where a family can be worse off or little better off as a result of having a wage increase, and where one family can be worse off or little better off than another similar family with lower earnings, the so-called 'poverty trap'. In 1980 it did not matter whether a family was earning £50 or £100 per week because their net disposable resources, what they have left to spend after paying income tax, national insurance contributions, rent and rates and receiving any child benefits, FIS, rent and rate rebates or free school meals, would be the same (Bradshaw 1980). Although the existence of the poverty trap has been recognised since Piachaud's (1971) seminal work on the topic, governments have continued to make separate decisions about tax and benefit policy in separate departments without any integrated scrutiny of their joint effects and their social consequences. In Whitehall only the DHSS have the capacity to calculate the combined effects of taxes and benefits and the Treasury and Inland Revenue fix taxes

at the time of the annual budget with an eye to national accounting, without consultation with the relevant benefit-paying department and with no prospective evaluation of their interrelation with benefits.

The Conservative government elected in 1979 came to power on a platform devoted to releasing incentives by a reduction in taxation, but it has presided over, if not purposefully created, a worsening of incentives for a substantial minority of the population. Increases in school meals' prices and other charges, the abolition of the lower rate band of income tax, changes in benefit levels and increases in rent and rates (to reduce public expenditure) have made the poverty trap worse than ever: more families are falling into it, the marginal tax rate is higher and the chances of someone actually being worse off as a result of a wage increase considerably enhanced. The combined marginal tax rate of national insurance contributions, income tax and rate and rent rebates – that is the amount of each extra pound earned that is lost – is at least 59.7 per cent (and can be 67.9 per cent). This is equivalent to the highest rate of tax paid on earnings of £25,000. Very little is known about the effects of the poverty trap on behaviour, but it must have some effect on incentives, on the morale of the poor, influence senselessness in wage bargaining and certainly involves much giving and taking of what the Meade Report (1978) described as ludicrously inconsistent taxes and benefits.

The unemployment trap is another area where overlapping taxes and benefits conspire to reduce the differentials in and out of work. A great deal more attention is paid to the unemployment trap than the poverty trap and the present government's decision to abate unemployment benefit and eventually tax it, and to abolish the earnings-related supplement, are partly motivated by concern with the unemployment trap.

The evidence on the effects of the unemployment trap tends to contradict the beliefs of a wide section of public opinion. Atkinson and Flemming (1978) have recently reviewed the economic literature on the relationship between incentives and unemployment benefits and concluded that the 'replacement ratios' between benefits and earnings have a very modest effect on benefit duration. Does it really matter if there is some delay in filling vacancies which can then be filled by others who would otherwise be unemployed?

There are many other ways in which the effects of social security expenditure are mediated by decisions in other expenditure programmes and where this interaction is not fully recognised. The Supplementary Benefits Commission has consistently drawn

attention to the disjunction that exists in the treatment of housing costs in the supplementary benefit scheme and their treatment through the rent and rate rebate schemes (Bradshaw and Bradley 1979). This disjunction is one of the main causes of the 'better off' problem as well as being a source of confusion and complexity in the supplementary benefit scheme. Yet no government has so far been able to implement a reform.

Neither, apart from child benefits, has there been any integration of social welfare and fiscal welfare. Not until 1979 did the public expenditure white papers recognise that 'tax expenditure' might be as important as direct transfers in meeting needs and begin to publish the details of the revenue cost of certain tax reliefs. One example of the opportunities presented by integrating social security and fiscal policy to achieve social objectives was raised by the Meade Committee (1978) who suggested that the revenue forgone in the married man's tax allowance, now some £2600 million per year, could be better used paying enhanced child benefit and a home responsibility benefit to women who needed to stay at home to look after young children or disabled adult relatives.

With rapidly rising rates of unemployment in the latter part of the decade which will continue well into the 1980s, the area where strategic planning has been most needed is in the treatment of unemployment. Unemployment is a waste and works against a government seeking to control public expenditure, keep down taxation and reduce the public sector borrowing requirement. For each job lost in the private sector official estimates conclude that the cost to the Exchequer in 1980/1 prices is £3400 (Treasury 1981b). This is made up of £2050 from loss of income tax and national insurance contributions, and government expenditure is increased by £1350 per year in unemployment and supplementary benefits, rent and rate rebates and administrative costs. When other factors are taken into account, such as redundancy payments, losses of indirect taxation and lost production, the costs could be in excess of £5000 per year. For less than that sum it would be possible to provide by public investment or public expenditure, productive or socially useful employment on a wider scale than envisaged in existing employment schemes (see Chapter 9).

The effectiveness of social security expenditure

One difficulty in evaluating the effectiveness of social security expenditure is in establishing its purpose. The nearest the Treasury ever got to a definition was in the following anodyne statement which appeared in the 1979 white paper.

The primary purpose of social security benefits is to provide a cash benefit in the event of certain contingencies such as sickness, unemployment or retirement. Supplementary benefits and family income supplement (FIS) remedy income deficiencies. The child benefit system provides income for families. (Treasury 1979a: 150)

One other white paper attempted to describe the purposes of social security expenditure.

The purpose is to provide income. . . . The benefits by which this redistribution is effected are various. . . . Some benefits . . . do no more than supplement a claimant's main income . . . the supplementary benefits scheme which considers all the claimant's needs and resources and guarantees that those needs will be met when he cannot work. (Treasury 1972a: 74)

One way of evaluating social security expenditure is in its effectiveness in tackling poverty. The government has published estimates of the numbers in the population living in or at the margins of poverty based on Family Expenditure Survey data since 1972. Only since 1974 are the figures comparable and since 1977 the data are only produced every two years (DHSS 1980b).

Table 5.9 Persons living in poverty 1974-77 (thousands)

	1974	1975	1976	1977
Persons below SB level	1 410	2 030	2 280	2 020
Persons on SB	3 730	3 770	4 090	4 160
Persons up to 140% of SB	5 260	7 360	8 500	7 840
Total	10 400	13 160	14 870	14 020

Sources: DHSS, *Social Security Statistics*, 1980, London, HMSO, Table 47.07; Field, F., 'Poverty and Inequality', *Poverty*, no.42, pp.3-45.

The number living in poverty clearly depends on how poverty is defined. In 1977 there were 6.180 million persons living at or below the supplementary benefit level and a further 7.840 million living on incomes within 140 per cent of supplementary benefit level. The number of persons in poverty has risen between 1974 and 1977 and although there was a slight fall between 1976 and 1977 nearly a quarter of the population are still living on incomes which are very close to poverty levels. Those living below supplementary benefit levels consist of people over pensionable age who are eligible for and not claiming supplementary benefit (760,000 in 1977) and families who are recipients of national insurance benefits and not claiming supplementary benefit or

families in full-time work earning low wages (620,000 in the latter group in 1979).

These are the numbers living at or around the officially approved poverty level but what does that mean in practice? The studies that have been done on the levels of living of those on supplementary benefit suggest that in general it is enough to live on and provides a dreary diet for a good manager with no allowance for vices. One particularly striking study was carried out by Piachaud (1979). He costed what he considered to be a modest modern minimum life style for a child, including the cost of food, fuel, clothing, entertainments, holidays, toys, pocket money and presents and concluded that the supplementary benefit scales for children needed to be increased by a half if they were to provide even this bleak lifestyle.

Apart from the relief of poverty the other possible general objective of social security expenditure is to redistribute income. Cash benefits play a major role in income redistribution.

Table 5.10 Cash benefits as a percentage of final income, 1971 and 1979

<i>Quintile</i>	<i>Average per household 1971</i>	<i>Average per household 1979</i>	<i>Average per household 1979 (adjusted to a per equivalent adult basis)</i>
Quintile 1 ^a	72.2	78.9	79.7
Quintile 2	42.1	36.4	36.6
Quintile 3	7.9	11.9	12.8
Quintile 4	5.1	7.2	7.8
Quintile 5	2.7	4.5	3.1
All	12.3	17.5	21.4

Note: ^a Quintile groups of households ranked by original income.

Sources: CSO, *Economic Trends*, London, HMSO, February 1978; CSO, 'The effects of taxes and benefits on household income 1979', *Economic Trends*, London, HMSO, January 1981, pp.104-31.

To compare the figures in Table 5.10 between 1971 and 1979 would be misleading as the latter incorporate child tax allowances into child benefits as a cash benefit, but the table shows how important social security benefits are in maintaining the incomes of the lowest income households. Beckerman, in work for the Royal Commission on the Distribution of Income and Wealth (1978), calculated that in 1975 without cash benefits, the number of families living in poverty would increase more than sevenfold. So, clearly, social security expenditure redistributes income but has

Table 5.11 Effects of taxes and benefits on the distribution of incomes, 1971-73 and 1979

Quintile	Percentage in each quintile group of households, re-ranked at each stage					
	Original income		Net income		Final income	
	1971-3	1979	1971-3	1979	1971-3	1979
Bottom tenth	0.1	—	2.6	2.6	2.6	2.8
Quintile 1	1.4	0.5	6.6	6.5	6.8	7.1
Quintile 2	10.8	9.0	12.6	12.0	12.4	12.0
Quintile 3	18.4	19.0	18.1	18.0	17.9	18.0
Quintile 4	25.7	27.0	23.9	24.0	24.0	24.0
Quintile 5	43.7	45.0	39.0	39.0	38.9	38.0
Top tenth	26.9	27.0	23.5	23.0	23.4	22.0
Gini coefficient (%)	42.3	45.2	32.6	32.3	32.4	31.5

Sources: Royal Commission on the Distribution of Income and Wealth, Report no.1, *Initial Report on the Standing Reference*, Cmnd 6171, London, HMSO, 1975, Table 24; CSO, 'The effects of taxes and benefits on household income 1979', *Economic Trends*, London, HMSO, January 1981, Table C.

there been any reduction in inequalities during the 1970s? Table 5.11 compares the effects of all taxes and benefits on the income distribution for the period 1971-3 with 1979. The original income distribution was marginally more unequal in 1971-3 than 1979. Net income and final income were marginally less unequal in the latter period. Overall it is possible to conclude that the progressive effect of direct and indirect taxes, cash benefits and services increased only very slightly during the 1970s.

The previous analysis has concentrated on the vertical redistribution that has occurred during the 1970s *inter alia* as a result of social security expenditure. Another important redistributive purpose of social security expenditure is to maintain horizontal equity in the distribution of income. Table 5.12 shows that a three child family started the decade with 23 per cent more disposable resources than a single person and ended with 20 per cent more — that is there was a small improvement in the relative net income of a single person. A family on a wage of two-thirds average, however, improved its position relative to a single person (DHSS 1980f).

Conclusion

Public expenditure on social security in the 1970s was protected

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Table 5.12 Ratios between the net disposable resources of a single person and a couple with three children aged, 3, 8 and 12

<i>Year</i>	$\frac{2}{3}$ <i>average wage</i>	<i>average wage</i>	$1\frac{1}{2}$ <i>average wage</i>
April 1970	135	123	115
April 1974	147	122	114
April 1978	147	121	114
April 1980	145	120	113

Source: Derived from DHSS, 'Income and means tested benefits, historical model' Branch SR3A (unpublished).

from the cuts that many other expenditure programmes experienced and there was a substantial increase in expenditure. However the net consequences of these increases were limited – most of the extra money went to maintain benefits or pay benefits for the increasing numbers of dependent people in the population. Reform was small-scale and piecemeal and failed to integrate with other spending programmes. Yet social security expenditure remains vital to the living standards of a significant and currently growing minority of the population. Cuts in benefits are a direct attack on the most vulnerable in our society.